CANADIAN FOREIGN POLICY SERIES

Overview

March 1989

Canada and the Organization for Economic Co-operation and Development

Introduction

The Organization for Economic Co-operation and Development (OECD) brings together in one forum the 24 industrialized democracies of Western Europe, North America and the Pacific Region.[1] These countries account for 16 per cent of the world's population and produce two-thirds of its output. The primary purpose of the organization is to discuss and identify compatible, mutually supporting, constructive approaches to economic and social issues in order to ensure non-inflationary sustainable economic growth and to provide employment and rising standards of living for its own populations and those of the international community as a whole.

Origins and Aims of the OECD

The Organization for Economic Co-operation and Development began its official existence on September 30, 1961, following the signing of the Convention of the OECD on December 4, 1960. The new organization took over from the OEEC (Organization for European Economic Co-operation), which had been created in 1948 to help co-ordinate the rebuilding of the war-torn European economies with the support of the United States-sponsored Marshall Plan. By 1960, Western Europe's fortunes had been restored, and its standard of living was higher than ever before. But it had become clear that the interdependence of the industrialized countries required an extension of economic co-operation beyond Europe.

1. Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, the United States. (Yugoslavia is a special status country.)

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Canada and the United States joined the OECD on December 4, 1960. Japan joined in 1964, Finland in 1969, Australia in 1971 and New Zealand in 1973, bringing the total to 24 countries. The Commission of the European Communities takes part in OECD work, and Yugoslavia participates in many activities as well.

The OECD has evolved considerably over the past three decades, moving far beyond the original mandate of the OEEC. Its work now covers the entire spectrum of economic and social issues facing national governments—agriculture, fisheries, labour, social affairs, education, science and technology, energy, environment, trade, investment and economic policy-making—as well as international economic issues.

OECD: How It Works

The OECD Council, which is the top policy-making body of the organization, is chaired by the OECD Secretary-General and consists of representatives of all member countries. Its meetings are normally attended by each country's permanent representative, who has the rank of ambassador. Once a year, an OECD Council at Ministerial Level brings together ministers of foreign affairs, finance and trade. In these meetings political leaders debate the major economic and social issues of the moment. At the end of the council, they issue a communiqué that sets out the directions they agreed to and gives political impetus to the work of the organization.

The council is served by an executive committee which is a smaller body of 14 members, with permanent membership of seven countries[2] and rotating membership for seven others. Three times a year, the Executive Committee in Special Session brings together senior officials in charge of international economic relations to discuss the various economic, trade and social issues in an interrelated fashion and to prepare for the year's Ministerial Meeting.

The OECD committees, numbering more than 30, plus numerous working parties and expert groups, do the detailed work of the organization in the various policy fields. Countries are represented either by members of their permanent delegation or more commonly by expert officials from their national governments.

The OECD Secretariat supports the council and the committees in their work. The Secretary-General heads a staff of 1 700 international civil servants, of whom 530 are professionals who have demonstrated excellence. They are supplemented by consultants drawn from universities, business, banks and government. Their job is to provide impartial, world-class analysis of issues, which the member countries then use as the factual base for their deliberations, and which also helps enlighten the public on policy issues. The OECD publishes a significant number of studies and generates "benchmark," internationally used statistics.

A critical working tool of the OECD is the country review process, whereby member countries as a group, relying on the analysis provided by the secretariat, review each member's policies (in such areas as macro-economic policy, technology, energy). This process of "peer review" helps member governments measure their own policies against comparable international standards.

OECD decisions are almost always taken by consensus. The objective is to arrive at policy based on a shared understanding, not the imposition of one country's views on another. Through analysis, the exchange of information and experience, and discussion, member countries become more aware of the impact of their actions on others as they search out compatible solutions and strategies. Although most agreements are informal and unpublicized, member countries, if they consider it appropriate, can and do adopt collective policy decisions through communiqués, declarations, OECD recommendations or OECD decisions, and codes of conduct. All such decisions are made public.

Canada and the Evolution of the OECD

Imbued with a strong commitment to multilateral co-operation in the wake of the Second World War, Canadian statesmen were at the forefront of efforts to build and shape the era's international institutions. It is not surprising that with the creation of the OECD, a Canadian, Mr. Donald Fleming, then Minister of Finance, was chosen to preside over the first OECD Ministerial Meeting in 1961. In succeeding years Canadian

2. Canada, France, Germany, Italy, Japan, the United States and the United Kingdom.

ministers played active roles in directing the OECD to new areas that would promote more effective international economic co-ordination. In 1985, Secretary of State for External Affairs Joe Clark and Finance Minister Michael Wilson chaired the 25th annual OECD Ministerial Conference.

The exchange of information and experience as well as the analysis provided by the secretariat gives Canadian policy-makers valuable insights into the domestic policies of Canada's principal economic partners. The OECD reviews offer critical, impartial outside analysis of Canada's economic performance and policies. As well, OECD discussions permit Canadian policy-makers to influence the policies of member governments and to help formulate solutions to international economic problems. For Canada, then, the OECD is both a cornerstone of the multilateral economic system and an invaluable aid to national policy-making.

Co-ordinating Economic Policy

The OECD is best known for its role in macro-economic policy co-ordination. The objective in this field is to encourage policies that will yield sustained economic growth and the fullest possible employment with price stability.

In the Economic Policy Committee, member governments meet two or three times a year to evaluate broad economic policy options, examine and criticize each other's approaches, and share views on the economic outlook. The secretariat provides input by analyzing the implications of members' macro-economic policies for national and international economic performance. Its economic analyses and forecasts are internationally recognized.

The OECD's many publications such as the *Economic Survey* produced on each member country, the biennial *Economic Outlook*, and annual *Employment Outlook* provide governments, business, universities, the press, other media and the general public with a continuous pulse-taking of OECD and world economies.

Canada views the OECD as the key forum for progress on international economic issues. As a member of the Economic Summit Seven and the Group of Seven Finance Ministers, Canada plays an active role in OECD economic discussions.

OECD: Economic Challenge and Change

The international economic environment has changed considerably since the organization's founding in 1961. In many ways, the 1960s were a golden age for OECD countries. The first Ministerial Meeting set the target of 50 per cent economic growth for the decade; real GNP actually grew to 70 per cent while inflation rarely went above 3 per cent. The 1970s and the 1980s, however, posed a series of difficult challenges: slow growth rates, the collapse of fixed exchange rates, trade protectionism, oil price and supply shocks, inflation, "stagflation," intractable unemployment, environmental degradation, and a new, more dramatic role for science and technology in economic growth.

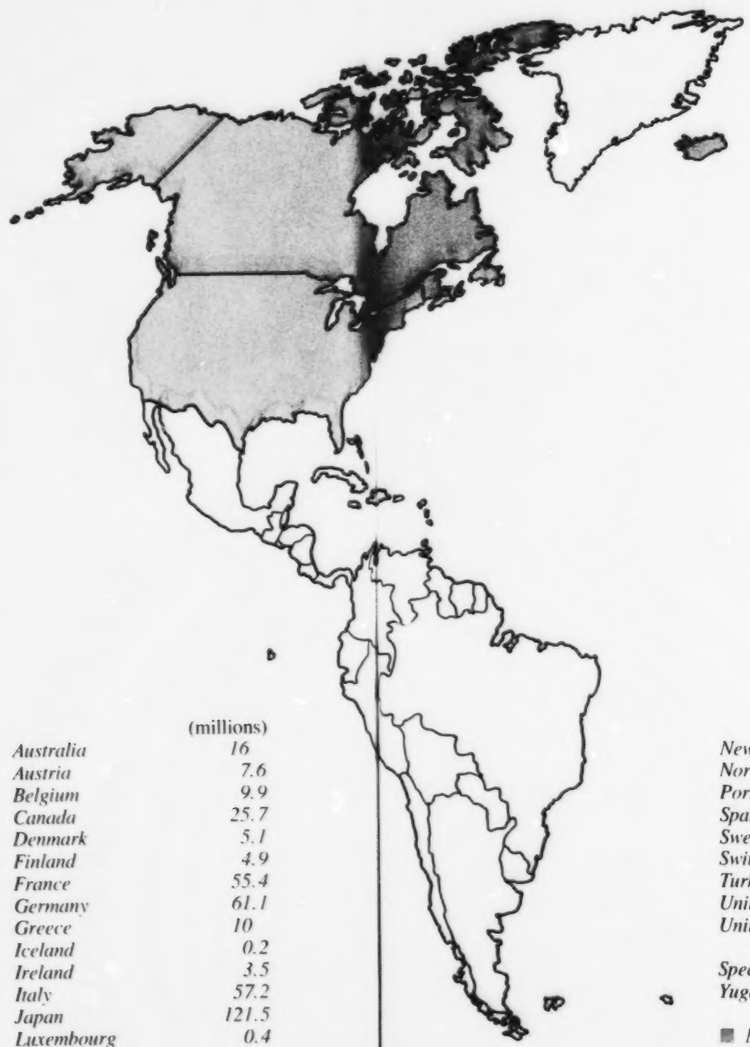
The OECD responded to these challenges by refocusing its efforts. Many of the new themes it took on, including structural adjustment, protectionism, technology and socio-economic adaptation, environmental considerations for economic growth, and energy security cut across the traditional, strictly sectoral approaches.

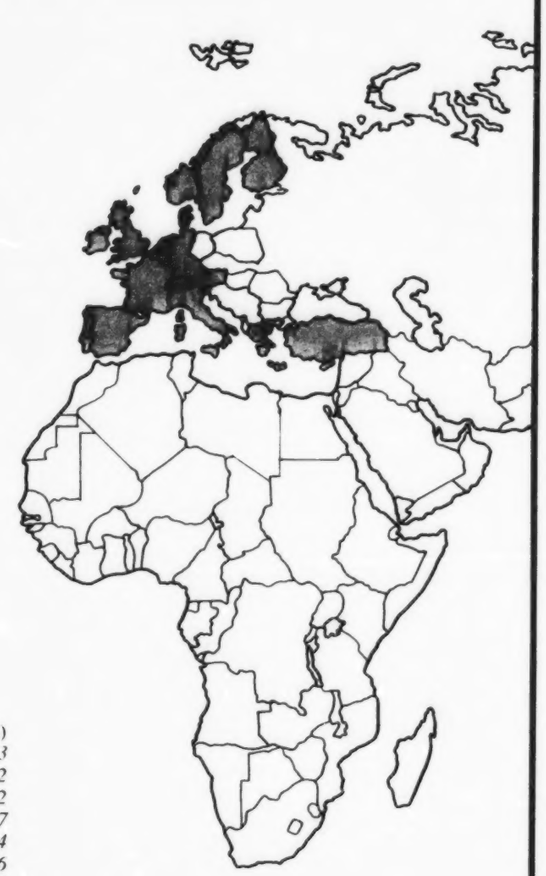
For instance, slow growth in the 1970s raised questions about the capacity of OECD economies to adapt to changing circumstances, create new opportunities and reallocate resources. The OECD took a leadership role in defining the scope of this structural adjustment problem: the Agriculture Committee examined agricultural surpluses; the Industry Committee looked at technological change and shifting patterns of comparative advantage; the Committee on Financial Markets looked at more effective and innovative capital markets; and the Economic Policy Committee probed the impact of increasing public sector spending.

In 1987, the OECD published a synthesis report, *Structural Adjustment and Economic Performance*, bringing together all these themes. The report is a valuable guide for national policy-making, and OECD governments are now taking steps to follow its policy prescriptions.

Commitment to the expansion of trade is one of the key pillars of the OECD Convention. Over the last decade the OECD has sought to maintain and improve the open multilateral trading system by trying to convince governments to resist restrictive actions and to remove trade

Membership and Population





	(millions)
Australia	*16*
Austria	*7.6*
Belgium	*9.9*
Canada	*25.7*
Denmark	*5.1*
Finland	*4.9*
France	*55.4*
Germany	*61.1*
Greece	*10*
Iceland	*0.2*
Ireland	*3.5*
Italy	*57.2*
Japan	*121.5*
Luxembourg	*0.4*
Netherlands	*14.6*

	(millions)
New Zealand	*3.3*
Norway	*4.2*
Portugal	*10.2*
Spain	*38.7*
Sweden	*8.4*
Switzerland	*6.6*
Turkey	*50.9*
United Kingdom	*56.8*
United States	*241.6*
Special status country	
Yugoslavia	*23*

Member country
Special status country

distortions. The OECD Trade Committee has examined trade issues from a policy perspective rather than (as in the General Agreement on Tariffs and Trade) in legal terms. On occasion, the OECD discussions on emerging issues have led to binding agreements in the area of multilateral trade negotiations (MTN). Government procurement practices in the Tokyo MTN Round is an example. In addition, after years of analysis and discussion, in 1987 OECD ministers collectively recognized for the first time the need for agricultural reform and pushed for action in the new Uruguay Round of MTN.

The oil crises of the 1970s produced shocks to the economies of the industrialized countries and placed energy security at the top of national policy agendas. The OECD responded to the first oil crisis by establishing the International Energy Agency (IEA) in 1974. The IEA embraces 21 of the 24 OECD countries (France, Ireland and Finland do not participate). The IEA governments have agreed to share available oil supplies in an emergency. In addition, the agency has been working with member countries to conserve energy, to reduce dependence on oil and achieve a more balanced energy mix by developing alternatives (such as coal, nuclear power and renewable energy sources), and to pursue relevant research and development in the production and use of energy. Other prominent issues for the IEA are the effects on energy policy of growing environmental concerns and the problems and opportunities offered by far-reaching structural changes in energy economies. The quest for both short- and long-term energy security remains at the heart of IEA work.

Nuclear energy, which now accounts for 18 per cent of OECD countries' electricity, is also an important part of the organization's energy planning. The Nuclear Energy Agency (NEA), created in 1957, is concerned with all aspects of nuclear energy use. In particular, it makes important contributions to increasing safety in power generation and in planning for nuclear waste disposal.

Fields such as biotechnology, information technologies, and advanced materials (e.g., super-conductors) signal the birth of a new industrial revolution. The impact of science and technology on economic growth, competitiveness and society as a whole has become a key issue for all OECD governments. The Science and Technology Policy Committee, the Information, Computer and Communications Committee, and the Industry Committee are investigating the innovation process and seeking ways to promote and manage it. Other OECD committees are also looking at the effect of the new technologies on employment.

The relationship between economic growth and a healthy physical environment has been another major issue in the 1980s. The OECD Conference on Environment and Economics in 1984 and a subsequent OECD Environment Ministers' Conference concluded that environmental factors should be a central consideration in national decision-making. This work was a forerunner to the recent World Commission of Environment and Development which has stressed the importance of sustainable development. In addition, the OECD has passed specific recommendations and decisions on economic, legal and scientific aspects of environmental management. The well-known "polluter pays" principle originated in the OECD.

The themes discussed and negotiated at the OECD over the past two decades have reflected the preoccupations of policy-makers in Canada. OECD work on structural adjustment and economic performance has facilitated Canadian discussion on adapting the domestic economy to a changing global one. Lessons were drawn for regional development, and for industrial, labour and educational policies. Provincial ministers have come to the OECD to learn and to impart their experience on social policies and education.

On trade, Canadian ministers have used the OECD to strengthen the political commitment to combat protectionism. Canada supported the important 1985 study, "Costs and Benefits of Protection," and in recent years has been particularly active in promoting OECD work on the cost of agricultural support programs.

In the field of energy, where Canada is vitally concerned both as a large producer and consumer, Canadians have encouraged the IEA to take a longer-term perspective on energy security, one for instance that takes into account the potential of frontier resources. In the areas of environment, and science and technology, both of which have risen to the top of Canada's policy agenda, Canadian policy-makers have looked

to the OECD to provide new perspectives and forge a new international policy consensus.

OECD and the Changing World

The OECD has helped its members to situate themselves in an increasingly interdependent international economic system. The developing world has changed significantly since the OECD was formed in 1961. Some newly industrializing economies, such as South Korea, Hong Kong, Singapore and Taiwan, have begun to match or overtake some OECD countries in income per capita and trade in manufactured goods. At the same time, many middle-income countries, notably in Latin America, and the poorest sub-Saharan African countries have faced staggering debt burdens, which have hindered growth and worsened living standards. In contrast to the early days of the OECD, the different situations in the developing countries and varying approaches taken by each of them, as well as their importance in the global economy, have been striking.

Accordingly, the OECD has increasingly focused on such questions as developing countries' access to international finance, the role of foreign direct investment, and the impact of developing countries on the world economy. For OECD countries, ensuring that domestic growth supports growth in the Third World has been a fundamental objective. The OECD's responsibilities in this respect have been the object of policy developments expressed most notably in the ministerial communiqués in the late 1980s.

As well, the OECD's Development Assistance Committee (DAC) examines the aid policies of member countries to determine the most effective instruments for alleviating poverty and promoting development. The DAC has succeeded in setting international standards for aid, in promoting more and better Official Development Assistance (ODA), and in ensuring that aid policies of OECD countries do not work at cross-purposes. The severe drought conditions of the Sahel countries in the 1970s led to the creation of the OECD's Club de Sahel which serves as an important body for the co-ordination and implementation of aid strategies in the region. Finally, the organization's Development Centre provides a forum for international exchange of experience with developing countries, and research focusing on development and interdependence.

Canada has consistently been among the most strongly committed of OECD members to economic and social development in the Third World. Canada has used the DAC as a sounding board for its own aid program, and has encouraged other OECD members through the DAC to increase and improve their aid. Canada provided $2.7 billion in ODA in 1987/88, which represented 0.5 per cent of Canadian GNP, well above the DAC average of 0.36 per cent. In the 1980s Canada has stressed sustainable economic and social development, partnership with developing countries, alleviation of poverty, and promotion of social justice as major themes for development co-operation.

Agenda for the Future

Unemployment, structural imbalances, protectionism, an unsettled world financial system, hunger in Africa, the challenge of technological change and environmental hazards are continuing concerns. New problems, impossible to foresee, will certainly emerge as global interdependence increases, and the need for international co-operation will become all the more important.

The experience of the 1970s and early 1980s has made the OECD more able to anticipate improbable events and heed signals of change in the international economic environment. The organization has shown the ability to adapt to new circumstances. Canada is confident that the OECD will continue to evolve, to deal effectively with the challenges the future presents, and to remain an important instrument of international co-operation.

OECD Publications

The OECD publishes some 120 titles each year in English and French, the two official languages of the organization. In Canada, OECD publications can be obtained through:

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